

EUREKA REDEVELOPMENT AGENCY

FINANCIAL STATEMENTS

JUNE 30, 2011

EUREKA REDEVELOPMENT AGENCY
Financial Statements
June 30, 2011

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INDEPENDENT AUDITOR'S REPORT

Members of the Governing Board
Eureka Redevelopment Agency
Eureka, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Eureka Redevelopment Agency (Agency), a component unit of the City of Eureka, California (City), as of and for the fiscal year ended June 30, 2011 which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Agency. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2011, and the respective changes in financial position thereof, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 of the notes to the basic financial statements, effective July 1, 2010, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB Statement No. 59 – *Financial Instruments Omnibus*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2012, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 3 through 8 and the budgetary comparison schedule for the Low and Moderate Income Housing Special Revenue Fund on page 33 and Redevelopment Administration Special Revenue Fund on page 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The major debt service and capital project fund budgetary comparison schedules and the computation of low and moderate income housing fund excess surplus are presented for purposes of additional analysis and are not required parts of the basic financial statements. The major debt service and capital project funds budgetary comparison schedule and the computation of low and moderate income housing fund excess surplus are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Culver City, California
January 10, 2012

BASIC FINANCIAL STATEMENTS

**EUREKA REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

As management of the Eureka Redevelopment Agency (the "Agency"), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information contained within the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as the introduction to the Agency's basic financial statements. The Agency's basic financial statements are comprised of three parts; (1) Government-wide Financial Statements, (2) Fund Financial Statements, and (3) Notes to Basic Financial Statements.

Government-wide Financial Statements

The Government-wide Financial Statements are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all the Agency's assets and liabilities, with the difference between the two reported as Net Assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The Statement of Activities presents information showing changes in the Agency's net assets during the most recent fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The Government-wide Financial Statement can be found starting on page 9 of this report.

Fund Financial Statements

A fund is a grouping of related accounts, which is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Agency uses four funds within its accounting structure. All four are considered "Major" funds under Governmental Accounting Standards Board Statement No. 34.

The Low and Moderate Income Housing Special Revenue Fund accounts for the resources that are accumulated and used to help provide low-cost housing and housing rehabilitation to low and moderate income households. This fund's resources are derived primarily from 20% of the tax increment revenues that are generated through the Agency's activities.

EUREKA REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

Fund Financial Statements (Continued)

The Redevelopment Administration Special Revenue Fund accounts for operational costs of the Agency. The activities are supported by loans from the City of Eureka, which are repaid by the Debt Service Fund.

The Debt Service Fund is used to account for accumulated resources that are used to repay the Agency's debt obligations. The main funding source for the Debt Service Fund is the remaining tax increment revenues available after the 20% allocation to the Low and Moderate Income Housing Fund. The tax increment revenues in this fund may only be used to repay debt obligations of the Agency.

The Capital Projects Fund is used to account for the resources that are accumulated and used to construct capital projects and public improvements that benefit the Agency and the community as a whole. The primary funding sources for the Capital Projects Fund are proceeds from tax allocation bonds and loans from the City of Eureka.

All four of the Agency's funds, when combined, are used to account for the same functions reported as "Governmental Activities" in the government-wide financial statements. Unlike the government-wide financial statements, however, the fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating near-term financing requirements.

Because the focus of the fund financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the funds with similar information presented for the governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impacts of the Agency's near-term financial decisions. Both the balance sheet and the statement of revenues, expenditures, and changes in the fund balance presented in the fund financial statements provide a reconciliation to facilitate this comparison to the government-wide statements.

The Fund Financial Statements can be found starting on page 11 of this report.

**EUREKA REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

Government-wide Financial Analysis

The Agency's net assets as reported on the Statement of Net Assets as of June 30, 2011 are \$(14,882,279).

As the Agency uses bond and loan proceeds to make capital improvements, resources recorded as assets (cash) are depleted. The capitalized assets become property of the City of Eureka; however, the associated debt remains with the Agency resulting in the net negative position. It should be noted that almost all of the liabilities of the Agency are long-term in nature and will be amortized over the life of the debt, thereby having little impact on current operations. The current portion of the long-term debt that becomes due annually is planned for each fiscal year within the Agency's budgetary process. A summary statement of net assets with comparative amounts from last fiscal year are as follows:

**EUREKA REDEVELOPMENT AGENCY
STATEMENT OF NET ASSETS**

	<u>6/30/2011</u>	<u>6/30/2010</u>
ASSETS:		
Cash and investments	\$ 5,621,789	\$ 4,882,844
Other current assets	497,042	5,317,306
Non-current assets	<u>11,520,202</u>	<u>2,663,995</u>
Total Assets	<u>17,639,033</u>	<u>12,864,145</u>
LIABILITIES:		
Current liabilities	595,510	76,944
Non-current liabilities	<u>31,925,802</u>	<u>29,887,829</u>
Total Liabilities	<u>32,521,312</u>	<u>29,964,773</u>
NET ASSETS:		
Restricted	10,579,915	9,740,139
Unrestricted	<u>(25,462,194)</u>	<u>(3,554,857)</u>
Total Net Assets (Deficit)	<u><u>\$ (14,882,279)</u></u>	<u><u>\$ 6,185,282</u></u>

EUREKA REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

Government-wide Financial Analysis (Continued)

The Agency's primary source of operating revenues is in the form of property tax increment revenues that are generated as a result of the increase in assessed valuation within the project area from year-to-year. For the fiscal year ended June 30, 2011, tax increment revenues, which are classified as "general revenues", totaled \$4,866,612. Expenses for the Agency as reported on the Statement of Activities totaled \$3,851,733. The majority of these expenses consist of the cost of debt service obligation payments of the Agency, the provision of low and moderate income housing, and general administrative support for the Agency. During the fiscal year ended June 30, 2011, the Agency entered into a Cooperative Agreement with the City of Eureka. Per the Agreement, the Agency transferred certain assets, liabilities, options, rents, leases and other agreements to the City, which will then assist the Agency in carrying out its intended purpose. The total amount of assets transferred by the Agency to the City was \$ 20,157,662. A summary statement of activities with comparative amounts from last fiscal year follows:

	Fiscal Year Ended 6/30/2011	Fiscal Year Ended 6/30/2010
Program revenues	\$ 81,390	\$ 1,149,218
Expenses	(3,851,733)	(5,367,403)
Net program revenues over (under) expenses	(3,770,343)	(4,218,185)
General revenues and transfer to City of Eureka	4,520,763	4,654,814
Special item - Property Conveyance Agreement	(20,157,662)	-
Change in net assets	(19,407,242)	436,629
Net assets beginning of fiscal year	6,185,282	5,748,653
Prior Period Adjustments	(1,660,319)	-
Net assets - beginning of fiscal year as restated	4,524,963	5,748,653
Net assets (deficit) - end of fiscal year	\$ (14,882,279)	\$ 6,185,282

Capital Assets

The capital assets of the Agency are those assets that are used in the performance of the Agency's functions, including infrastructure. At June 30, 2011, the Agency's capital assets for its governmental activities amounts to \$1,765,433(net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements other than buildings, and construction in progress. Net change to capital assets of the Agency in comparison to the prior year, is a decrease of \$14,142,754. The majority of the decrease is due to the transfer of assets by the Agency to the City, as previously noted above.

**EUREKA REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

Debt Administration

At the end of the current fiscal year, the Agency had total bonded debt outstanding of \$24,473,462 secured by property tax increment, which carries underlying ratings of A and A- from Standard and Poors. This includes a premium on Bond Payable of \$28,462.

In 2007 the Agency secured a loan from the California Infrastructure Bank to construct the C Street Market Square which will house the Fishermen's Terminal Building. This loan is for \$2,000,000 with a balance of \$1,796,135 at June 30, 2011.

In 2010 the Eureka Public Financing Authority issued two bonds, payable to the Authority by the Agency. The 2010 Lease Revenue Bonds, Series A (Taxable) were issued in the amount of \$4,960,000, with the primary purpose to pay off an advance owed to the City Of Eureka's General Fund for the amount of \$3,584,373. The 2010 Lease Revenue Bonds, Series B were issued for the purpose of financing the costs of certain public capital improvements within the Redevelopment Project Area, as well as to repay a note payable to the City of Eureka Wastewater Fund.

Advances payable to the City of Eureka for development within the Redevelopment Project Area total \$5,644,960. This is a net decrease of \$16,989 from FY 2009-10.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Based on the numbers received from the County of Humboldt, the 2011/2012 assessed value within the City's redevelopment project area is \$481,552,986. When compared to the 1974/1975 base year value of \$74,400,866 incremental growth of \$407,152,120 or 547.2% has been achieved. An estimate of tax increment revenue provided by the County indicates that Eureka Redevelopment Agency will receive approximately \$4,815,530 in tax increment revenues for the 2011/2012 fiscal year. In light of the December 29, 2011 California State Supreme Court decision upholding the elimination of Redevelopment Agencies while also striking the "pay to play" provision allowing RDA's to continue, this revenue estimate is very much in doubt. Barring further action from the State of California legislature, the continued existence of Redevelopment is doubtful.

**EUREKA REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Agency's finances. Questions concerning any of the information in this report, or requests for additional financial information should be addressed to the Finance Director, City of Eureka, 531 K Street, Eureka, CA, 95501-1146.

BASIC FINANCIAL STATEMENTS

EUREKA REDEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
June 30, 2011

ASSETS

Cash and investments	\$ 2,927,106
Restricted cash and investments with fiscal agents	2,694,683
Taxes and accounts receivable	25,827
Interest receivable	8,414
Notes and loans receivable	8,869,875
Land held for resale	462,801
Deferred loss on refunding - net of accumulated amortization	324,269
Deferred charges - net of accumulated amortization	560,625
Capital assets not being depreciated	<u>1,765,433</u>
Total Assets	<u>17,639,033</u>

LIABILITIES

Current Liabilities:

Accounts payable	157,834
Payroll payable	13,727
Interest payable	218,091
Due to the City of Eureka	<u>205,858</u>
Total current liabilities	<u>595,510</u>

Noncurrent Liabilities:

Due within one year	108,640
Due in more than one year	<u>31,817,162</u>
Total noncurrent liabilities	<u>31,925,802</u>
Total Liabilities	<u>32,521,312</u>

NET ASSETS

Restricted for:

Housing	10,579,915
Unrestricted	<u>(25,462,194)</u>
Total Net Assets (Deficit)	<u>\$ (14,882,279)</u>

**EUREKA REDEVELOPMENT AGENCY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

		Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Expense (Revenue) and Change in Net Assets
EXPENSES:					
Community development	\$ 1,953,292	\$ 81,390	\$ -	\$ -	\$ (1,871,902)
Pass-through payments	328,668				(328,668)
Interest on long-term debt	1,569,773				(1,569,773)
Total	<u>\$ 3,851,733</u>	<u>\$ 81,390</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(3,770,343)</u>
GENERAL REVENUES:					
Taxes:					
Incremental property taxes					4,866,612
Property tax relief, unrestricted					14,910
Use of money and property					30,400
Other					69,448
Transfers to the City of Eureka					<u>(460,607)</u>
Total General Revenues and Transfers					<u>4,520,763</u>
Special Item - Property Conveyance Agreement					<u>(20,157,662)</u>
CHANGE IN NET ASSETS					<u>(19,407,242)</u>
NET ASSETS - BEGINNING OF FISCAL YEAR					6,185,282
Prior Period Adjustments					<u>(1,660,319)</u>
NET ASSETS - BEGINNING OF FISCAL YEAR, RESTATED					<u>4,524,963</u>
NET ASSETS (DEFICIT) - END OF FISCAL YEAR					<u>\$ (14,882,279)</u>

**EUREKA REDEVELOPMENT AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011**

	Low and Moderate Income Housing Special Revenue Fund	Redevelopment Administration Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
ASSETS					
Cash and investments	\$ 523,638	\$ -	\$ 2,267,790	\$ 135,678	\$ 2,927,106
Restricted cash and investments with fiscal agents			773,673	1,921,010	2,694,683
Taxes and accounts receivable	2,878	5,325		17,624	25,827
Interest receivable	3,714		3,367	1,333	8,414
Notes and loans receivable	8,814,342			55,533	8,869,875
Advances receivable	792,202				792,202
Land held for resale	462,801				462,801
Total Assets	\$ 10,599,575	\$ 5,325	\$ 3,044,830	\$ 2,131,178	\$ 15,780,908
LIABILITIES AND FUND BALANCES					
Accounts payable	\$ 13,117	\$ 10,234	\$ 943	\$ 133,540	\$ 157,834
Payroll payable	6,543	7,169		15	13,727
Deferred revenue	8,814,342			55,533	8,869,875
Due to City of Eureka		205,858			205,858
Advances payable			792,202		792,202
Total Liabilities	8,834,002	223,261	793,145	189,088	10,039,496
FUND BALANCES					
Restricted:					
Housing	1,765,573				1,765,573
Debt Service			2,251,685		2,251,685
Redevelopment				1,942,090	1,942,090
Unassigned		(217,936)			(217,936)
Total Fund Balances (Deficits)	1,765,573	(217,936)	2,251,685	1,942,090	5,741,412
Total Liabilities and Fund Balances	\$ 10,599,575	\$ 5,325	\$ 3,044,830	\$ 2,131,178	\$ 15,780,908

**EUREKA REDEVELOPMENT AGENCY
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2011**

Fund Balances - Governmental Funds \$ 5,741,412

Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds because of the following:

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.

Construction in progress 1,765,433

LONG-TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore, are not reported in the Funds:

Deferred charges (net of accumulated amortization)	560,625
Deferred loss on refunding (net of accumulated amortization)	324,269
Bond premium	(28,462)
Long-term debt	(31,886,095)
Interest payable	(218,091)
Compensated absences	(11,245)

Deferred revenue is recognized in the governmental funds for loans receivable, which are not deferred in the governmental-wide statement of net assets.

8,869,875

NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES

\$ (14,882,279)

**EUREKA REDEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Low and Moderate Income Housing Special Revenue Fund	Redevelopment Administration Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
REVENUES					
Property tax increment revenue	\$ -	\$ -	\$ 4,866,612	\$ -	\$ 4,866,612
Use of money and property	9,611	5,759	3,749	11,281	30,400
Intergovernmental			14,910		14,910
Charges for services	30,355	751,035			781,390
Other revenues	344,262	39,360			383,622
Total Revenues	384,228	796,154	4,885,271	11,281	6,076,934
EXPENDITURES					
Current:					
Community development	625,609	1,037,109	1,169,057	25,445	2,857,220
Pass through payments			328,668		328,668
Capital outlay				1,355,889	1,355,889
Debt Service:					
Principal			236,374		236,374
Interest and fiscal charges		2,200	857,139	609,261	1,468,600
Total Expenditures	625,609	1,039,309	2,591,238	1,990,595	6,246,751
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(241,381)	(243,155)	2,294,033	(1,979,314)	(169,817)
OTHER FINANCING SOURCES (USES)					
Proceeds from debt issuance			115,980	574,641	690,621
Transfers to City of Eureka	(50,000)		(410,607)		(460,607)
Transfers in	1,275,052		132,969		1,408,021
Transfers out			(1,275,052)	(132,969)	(1,408,021)
Total Other Financing Sources (Uses)	1,225,052		(1,436,710)	441,672	230,014
SPECIAL ITEMS					
Property Conveyance Agreement	(61,567)			(4,613,178)	(4,674,745)
NET CHANGE IN FUND BALANCES	922,104	(243,155)	857,323	(6,150,820)	(4,614,548)
FUND BALANCES, BEGINNING OF FISCAL YEAR	843,469	9,446	850,547	8,036,677	9,740,139
Prior Period Adjustments		15,773	543,815	56,233	615,821
FUND BALANCES, BEGINNING OF FISCAL YEAR, RESTATED	843,469	25,219	1,394,362	8,092,910	10,355,960
FUND BALANCES (DEFICIT), END OF FISCAL YEAR	\$ 1,765,573	\$ (217,936)	\$ 2,251,685	\$ 1,942,090	\$ 5,741,412

**EUREKA REDEVELOPMENT AGENCY
RECONCILIATION OF THE
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NET CHANGE IN FUND BALANCES **\$ (4,614,548)**

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. 1,340,163

Disposition of capital assets per property conveyance agreement are not recorded in the governmental fund statements.
Adjusted basis of capital asset contributed (15,482,917)

LONG-TERM DEBT PROCEEDS AND PAYMENTS

Loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Issuance of loans	(690,621)
Repayment of advances and loans receivable	236,374

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore, are not reported as revenue or expenditures in governmental funds (net change):

Interest payable	(11,963)
Prepaid items - amortization	(89,210)
Compensated absences	4,528

Notes receivable issued are expenditures, and principal payments on notes receivable are a revenue in the governmental funds; however, in the government-wide statements, these transactions increase or decrease the notes receivable and accrue interest on notes receivable.

Notes receivable-difference between collected, given and written off	(99,048)
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ (19,407,242)**

NOTES TO BASIC FINANCIAL STATEMENTS

EUREKA REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose

The Eureka Redevelopment Agency (Agency) was established in 1970 through an action of the City Council of the City of Eureka and pursuant to the Community Redevelopment laws of the State of California.

The general objectives of the Agency are to eliminate and mitigate existing and anticipated blight within the project areas. These objectives are to be attained by the development, or encouragement thereof, of residential and commercial facilities in the project areas.

The Agency is an integral part of the City of Eureka and, accordingly, the accompanying component unit financial statements are included as a component of the basic financial statements prepared by the City. A component unit is a separate governmental unit, agency, or nonprofit corporation which, when combined with all other component units, constitutes the reporting entity as defined in the City's basic financial statements.

B. Basis of Presentation

Government-wide Statements: The Statement of Net Assets and the Statement of Activities include the financial activities of the overall Agency government. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency's activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Agency's funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. The Agency considers all its funds to be major funds.

C. Major Funds

Governmental Accounting Standards Board (GASB) Statement No. 34 defines major funds and requires that the Agency's major governmental type funds be identified and presented separately in the fund financial statements. Major funds are defined as funds that have either assets, liabilities, revenues or expenditures equal to or greater than ten percent of their fund-type total and five percent of the grand total of all fund types excluding fiduciary. The Agency has determined that all its funds are major funds.

The Agency reported the following major governmental funds in the accompanying financial statements:

Low and Moderate Income Housing Special Revenue Fund – This fund accounts for the portion of City and County tax increment funds received for redevelopment related purposes and set aside for low-and-moderate-income housing.

EUREKA REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Major Funds (Continued)

Redevelopment Administration Special Revenue Fund – This fund accounts for the operating costs of the Agency.

Capital Projects Fund – This fund accounts for redevelopment project capital outlays.

Debt Service Fund – This fund accounts for debt service payments on the Agency's long-term debt issues.

D. Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*. The Agency considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after fiscal year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Non-exchange transactions, in which the Agency gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Under the terms of grant agreements, the Agency funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. The Agency's policy is to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

E. Accounting Policies

Revenue

The Agency's primary source of revenue is property taxes, referred to in the accompanying component unit financial statements as "incremental property taxes". Property taxes allocated to the Agency are computed in the following manner:

- a. The assessed valuation of all property in the Project Area is determined on the date of adoption of the Redevelopment Plan by a designation of a fiscal year assessment roll.

EUREKA REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Accounting Policies (Continued)

- b. Property taxes related to any incremental increase in assessed values after the adoption of a Redevelopment Plan are allocated to the Agency; all taxes on the “frozen” assessed valuation of the property are allocated to the City and other districts receiving taxes from the project area.

The Agency has no power to levy and collect taxes and any legislative property tax reduction would lower the amount of tax revenues that would otherwise be available to pay the principal and interest on bonds or loans from the City. Conversely, any increase in the tax rate or assessed valuation or any elimination of present exemptions would increase the amount of tax revenues that would be available to pay principal and interest on bonds or loans from the City.

Property taxes in the State of California are administered for all local agencies at the county level, and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes.

Property Valuations and Tax Levies

The California Community Redevelopment Law provides that assessed valuations of a redevelopment project are, in effect, frozen at the level existing when the redevelopment plan is adopted, and all property taxes produced from this valuation continue to flow to all public agencies levying taxes on property in the project. Taxes produced from any increase in the assessed valuation of a project over the “frozen base” may be allocated to a redevelopment agency to pay or repay costs incurred on behalf of the project. The assessed valuation of a project may be temporarily or permanently reduced below the frozen base as a result of ownership of property by a redevelopment agency pending resale to a developer (temporary), or because a permanent reduction of the assessed valuation will cause a concurrent reduction of the frozen base so that the production of tax increment income from new development will not be impaired.

Tax Levy Dates

All lien dates attach annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

Tax Collections

The county tax collector is responsible for all property tax collections. Taxes and assessments on secured and utility rolls which constitute a lien against the property, may be paid in two installments; the first installment is due on November 1 of the fiscal year and is delinquent if not paid by December 10, the second installment is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the County for late payments.

EUREKA REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgets and Budgetary Accounting

Annual appropriated budgets are adopted for all governmental funds of the Agency. Appropriations include amounts encumbered at fiscal year-end, and these encumbrances are not appropriated in the following fiscal years. All annual appropriations lapse at fiscal year-end. Legally adopted budgetary appropriations are enacted at the departmental level for current operating expenditures, with separate appropriations for capital and other projects, debt service, reserves, transfers, and contingencies. Expenditures cannot legally exceed appropriations at these control levels. Amendments to the budget at the legal appropriation level must be approved by the Agency's Board. Amendments to the budget at less than the legal appropriation level may be made by management.

Project-length financial plans are adopted for capital and other projects. Appropriations for these projects are included in the annual appropriated budgets for each of the applicable funds. Unspent project amounts are included in the annual budgets of subsequent years until project completion.

Budget amounts, as adjusted, reported for the governmental funds of the Agency are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

G. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, deferred loss on refundings, and issuance costs, are deferred and amortized over the life of the bonds. These items are reported as deferred charges and amortized over the term of the related debt.

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. New Accounting Pronouncements

The Agency has implemented the requirements of GASB Statement No. 54 and No. 59 during the fiscal year ended June 30, 2011.

Governmental Accounting Standards Board Statement No. 54

For the fiscal year ended June 30, 2011, the Agency implemented Governmental Accounting Standards Board Statement No. 54 (GASB 54), "*Fund Balance Reporting and Governmental Fund Type Definitions*," The requirements of this statement are effective for financial statement periods beginning after June 15, 2010.

EUREKA REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. New Accounting Pronouncements (Continued)

GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and clarifies the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. These classifications are described in the Net Assets/Fund Balances section of this footnote.

The definitions of the special revenue fund type, capital projects fund type, and debt service fund type are also clarified by the provisions on this statement.

Governmental Accounting Standards Board Statement No. 59

For the fiscal year ended June 30, 2011, the Agency implemented GASB Statement No. 59, "*Financial Instrument Omnibus*". This Statement establishes standards to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The implementation of this Statement did not have an effect on these financial statements.

J. Net Assets/Fund Balances

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the Agency is bound to honor constraints on how specific amounts can be spent.

- Nonspendable fund balance – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- Restricted fund balance – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance – amounts that can only be used for specific purposes determined by formal action of the Agency's highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- Assigned fund balance – amounts that are constrained by the Agency's intent to be used for specific purposes. The intent can be established at either the highest level of decision making, or by a body or an official designated for that purpose.
- Unassigned fund balance – the residual classification for the Agency's funds that include amounts not contained in the other classifications.

The Governing Board establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget amendments that occur throughout the fiscal year.

EUREKA REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 - CASH AND INVESTMENTS

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 2,927,106
Restricted cash and investments with fiscal agent	2,694,683
Total cash and investments	<u>\$ 5,621,789</u>

Cash and investments as of June 30, 2011 consist of the following:

Pooled cash and investments with the	
City of Eureka	\$ 2,927,106
Restricted cash with fiscal agent	2,024
Restricted investments with fiscal agent	2,692,659
Total cash and investments	<u>\$ 5,621,789</u>

Investments Authorized by the California Government Code and the Agency's Investment Policy

The table below identifies the investment types that are authorized for the Agency by the California Government Code (or the Agency's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Agency's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Agency, rather than the general provisions of the California Government Code or the Agency's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Bankers Acceptances	180 days	40%	None
Certificates of Deposits	180 days	20%	None
Negotiable Certificates of Deposit	2 years	30%	None
Commercial Paper	270 days	25%	None
State of California Local Agency Investment Fund (State Pool)	N/A	Unlimited	\$50,000,000
Medium Term Notes	5 years	30%	None
Money Market Funds	N/A	Unlimited	None
Passbook Savings and Money Market Accounts (Insured)	None	Unlimited	None
U.S. Treasury Obligations	None	Unlimited	None
U.S. Government Agency Issues	None	Unlimited	None
Repurchase Agreements	30 days	10%	None
Mortgage pass-through and asset backed securities	5 years	20%	None

EUREKA REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 - CASH AND INVESTMENTS (Continued)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Certificates of Deposit with Banks and Savings & Loans	None	None	None
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Municipal Obligations	None	None	None
Banker's Acceptances	360 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	None	None	None
Local Agency Investment Fund (State Pool)	None	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flows and liquidity needed for operations.

Information about the sensitivity of the fair values of the Agency's investments and those held by bond trustees to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

Investment Type	Amount	12 Months or Less	13 to 24 Months	25 to 60 Months	Over 60 Months
Held by Bond Trustees:					
Money Market Funds	\$ 2,692,659	\$ 2,692,659	\$ -	\$ -	\$ -
Total	<u>\$ 2,692,659</u>	<u>\$ 2,692,659</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

EUREKA REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 - CASH AND INVESTMENTS (Continued)

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The Agency's investments (including investments held by bond trustees) include no investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Agency's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End	
				AAA	Not Rated
Held by Bond Trustees:					
Money Market Funds	\$ 2,692,659	N/A	\$ -	\$ 2,692,659	\$ -
Total	\$ 2,692,659		\$ -	\$ 2,692,659	\$ -

Concentration of Credit Risk

The investment policy of the Agency contains limitations on the amount that can be invested in any one issuer. The Agency has no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Agency investments.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The Agency pools its cash with the City of Eureka.

EUREKA REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 - CASH AND INVESTMENTS (Continued)

Custodial Credit Risk (Continued)

As of June 30, 2011, the Agency investments that were held by the same broker-dealer (counterparty) that was used by the Agency to buy the securities is as follows:

Investment Type	<u>Reported Amount</u>
Money Market Funds:	
California Asset Management Program	\$ 2,692,659

See the City of Eureka's Comprehensive Financial Report for more information relating to custodial credit risk for amounts reported as cash and investments pooled with the City of Eureka.

Investment in State Investment Pool

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE 3 - NOTES RECEIVABLE

The Agency loans funds to individuals and businesses to assist in the Agency's purpose; to eliminate blight in the project area. These notes have various interest rates and maturity dates.

Notes receivable at June 30, 2011 consisted of the following:

Low and Moderate Income Housing Fund	\$ 8,814,342
Capital Projects Fund (net of allowance for uncollectible loans receivable)	<u>55,533</u>
Total	<u>\$ 8,869,875</u>

These notes are noncurrent and are offset by deferred revenue in the governmental funds.

EUREKA REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 4 – INTERFUND ACTIVITY

A. Long-term Interfund Advances

At June 30, 2011, the funds below had made advances, which were not expected to be repaid within the next fiscal year.

<u>Funds</u>	<u>Advances Receivable</u>	<u>Advances Payable</u>
Low and Moderate Housing		
Special Revenue Fund	\$ 792,202	\$ -
Debt Service Fund		792,202

Due to the State SERAF payment requirement during fiscal year 2010, the fund had insufficient cash to make the payment. Borrowing from the Housing Fund was authorized by State SERAF legislation. The fund will repay the Housing Fund by June 2016.

Transfers

With Board approval, resources may be transferred from one Agency fund to another. The purpose of the majority of transfers is to reimburse a fund that has made expenditures on behalf of another fund or for debt service payments.

Transfers in and out for the fiscal year ended June 30, 2011 are as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Low and Moderate Housing		
Special Revenue Fund	\$ 1,275,052	\$ -
Debt Service Fund	132,969	1,275,052
Capital Projects Fund		132,969

NOTE 5 – DEFERRED CHARGES

Deferred charges consist of issuance costs for debt issues. The total costs deferred as a result of the issuance of various loan and tax allocation bonds were \$688,339. The amortization period varies from 204 to 322 months. Accumulated amortization as of June 30, 2011 was \$127,713 with amortization expense for the fiscal year of \$30,718.

NOTE 6 – DEFERRED LOSS ON REFUNDING

The Agency recorded a deferred loss on the refunding of its 2003 Series tax allocation bonds in the amount of \$795,469. The amortization period is 157 months which is the lesser of the remaining period of the old debt or the remaining period of the new debt. Accumulated amortization as of June 30, 2011 was \$471,200, with amortization expense for the fiscal year of \$60,800.

EUREKA REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 7 - CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these capital assets. The amount charged to depreciation expense each fiscal year represents that fiscal year's pro rata share of the cost of capital assets.

All capital assets with limited useful lives are depreciated over their estimated useful lives. Depreciation of all capital assets is charged as an expense against operations each fiscal year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the balance sheet as a reduction in the book value of capital assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital asset constructed, net of interest earned on the invested proceeds over the same period.

The capitalization threshold adopted by the Agency is \$5,000 for furniture, fixtures, improvements, and equipment, and \$50,000 for infrastructure.

Capital asset activity for the fiscal year ended June 30, 2011 was as follows:

	Balance July 1, 2010	Additions	Deletions	Transfers Per Property Conveyance Agreement	Balance June 30, 2011
Capital assets, not being depreciated:					
Land	\$ 1,219,513	\$ -	\$ -	\$ (1,219,513)	\$ -
Construction in progress	3,357,130	1,340,163		(2,931,860)	1,765,433
Total capital assets, not being depreciated	4,576,643	1,340,163		(4,151,373)	1,765,433
Capital assets being depreciated:					
Buildings	1,353,506			(1,353,506)	
Improvements	12,074,563			(12,074,563)	
Total capital assets being depreciated	13,428,069			(13,428,069)	
Less accumulated depreciation	(2,096,525)			2,096,525	
Total capital assets, being depreciated, net	11,331,544			(11,331,544)	
Governmental activity capital assets, net	\$ 15,908,187	\$1,340,163	\$ -	\$ (15,482,917)	\$ 1,765,433

EUREKA REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 8 - LONG-TERM DEBT

A. Long-term Debt Activity

The following is a summary of long-term debt activity of the Agency for the fiscal year ended June 30, 2011:

	Balance July 1, 2010	Additions	Repayment and Deductions	Prior Period Adjustments	Balance June 30, 2011	Due Within One Year
Loans Payable - Eureka Public Financing Authority	\$ 15,250,000	\$ -	\$ -	\$ -	\$ 15,250,000	\$ -
Loans Payable - Eureka Public Financing Authority	7,819,373			1,375,627	9,195,000	
Bond premiums			2,308	30,770	28,462	2,308
Advances Payable - City of Eureka	5,661,949	115,980	132,969		5,644,960	
California Infrastructure Bank Loan	1,324,899	574,641	103,405		1,796,135	106,332
Compensated Absences	15,773		4,528		11,245	
Totals	<u>\$ 30,071,994</u>	<u>\$ 690,621</u>	<u>\$ 243,210</u>	<u>\$ 1,406,397</u>	<u>\$ 31,925,802</u>	<u>\$ 108,640</u>

B. Loans Payable to Eureka Public Financing Authority

2003 Tax Allocation Revenue Refunding Bonds were issued by the Eureka Public Financing Authority (Authority) in the amount of \$15,250,000. Of the total bonds issued, \$13,140,000 were for refunding the Authority's outstanding 1993 Tax Allocation Revenue Bonds, and the remaining amount was to finance new activities of the Agency, a fund reserve account, and to pay the costs of issuing the bonds.

Interest rates on this issue of bonded indebtedness vary from 4.0% to 4.8%. The bond issue matures in annual increments with maturity dates on November 1 of each year from 2012 through 2023.

These bonds are secured by a first lien on and pledge of all of the amounts payable by the Agency to the Authority pursuant to loan agreements between the Agency and the Authority, and other revenues specified in the indenture. Each loan agreement is secured by a first pledge of and lien on the incremental tax revenues received by the Agency from redevelopment project areas. Each loan is additionally secured by a first and exclusive pledge of and lien upon all of the moneys held in the Reserve Account established with respect to the related loan. These bonds are payable solely from the revenues discussed in this paragraph and are not secured by the general taxing power of the City of Eureka.

As of June 30, 2011, the outstanding balance on these tax allocation revenue bonds and corresponding loans was \$15,250,000. The annual requirements to amortize the outstanding bonded indebtedness are as follows:

Fiscal Years Ending June 30,	Loans Payable - Eureka Public Financing Authority	
	Principal	Interest
2012	\$ -	\$ 678,343
2013	1,000,000	658,343
2014	1,040,000	617,543
2015	1,085,000	575,042
2016	1,125,000	528,031
2017-2021	6,410,000	1,841,803
2022-2023	4,590,000	335,323
	<u>\$ 15,250,000</u>	<u>\$ 5,234,428</u>

EUREKA REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 8 - LONG-TERM DEBT (Continued)

C. Loans Payable to the Eureka Public Financing Authority

The Eureka Public Financing Authority also issued two series of bonds in January 2010. The proceeds of these bond issues were subsequently loaned to the Agency.

The 2010 Lease Revenue Bonds, Series A (Taxable) were issued in the amount of \$4,960,000. The purpose of this issue was to pay off an advance owed to the City of Eureka's General Fund.

The 2010 Lease Revenue Bonds, Series B (Tax Exempt) were issued in the amount of \$4,235,000. The purpose of this issue was to finance the costs of certain public capital improvements within the Redevelopment project area to include improvements to the Boardwalk with the construction of the C Street Market Square and the Fishermen's Terminal Building. A portion of the proceeds will also be used to repay a note payable from the Eureka Redevelopment Agency to the City of Eureka Wastewater Fund. The balance of the proceeds was used to pay the cost of issuing the bonds and to set up reserves for near term interest and future debt service payments. Interest rates on this issue of bond indebtedness vary from 2.25% to 5.875%. The bond issue matures in annual increments with maturity dates on November 1 of each fiscal year from 2012 through 2027, the termination date of the agency, at which time the remaining balance becomes due.

These bonds are secured by lease income paid to the Authority by the City for use of the Boardwalk. The City will be reimbursed for these lease payments by the Redevelopment Agency.

Fiscal Years Ending June 30,	2010 Series A		2010 Series B		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ -	\$ 370,675	\$ -	\$ 237,786	\$ -	\$ 608,461
2013	115,000	367,512	45,000	237,280	160,000	604,792
2014	120,000	361,050	45,000	236,155	165,000	597,205
2015	125,000	354,312	50,000	234,724	175,000	589,036
2016	135,000	347,162	50,000	232,974	185,000	580,136
2017-2021	805,000	1,584,075	280,000	1,130,527	1,085,000	2,714,602
2022-2026	1,140,000	1,234,876	365,000	1,047,864	1,505,000	2,282,740
2027-2031	1,655,000	697,800	480,000	930,200	2,135,000	1,628,000
2032-2036	865,000	70,600	2,190,000	634,794	3,055,000	705,394
2037			730,000	21,444	730,000	21,444
	<u>\$ 4,960,000</u>	<u>\$ 5,388,062</u>	<u>\$ 4,235,000</u>	<u>\$ 4,943,748</u>	<u>\$ 9,195,000</u>	<u>\$ 10,331,810</u>

EUREKA REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 8 - LONG-TERM DEBT (Continued)

C. California Infrastructure Bank Loan (I-Bank)

On February 1, 2008, the Agency entered into an agreement with I-Bank to borrow \$2,000,000 at 2.83% to construct C Street Market Square.

Loan proceeds are disbursed to the Agency as capital costs are incurred and submitted. Annual principal payments and semi-annual interest payments are due through November 2024. The Agency will be credited for interest on undisbursed proceeds at 2.83%. A loan initiation fee of \$17,000 is being amortized over 17 years of the loan. The amount outstanding, as of June 30, 2011, was \$1,796,135.

The scheduled annual minimum debt service requirements at June 30, 2011 are as follows:

<u>Fiscal Years Ending June 30,</u>	<u>California Infrastructure Bank Loan</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 106,332	\$ 49,323
2013	109,341	46,271
2014	112,435	43,133
2015	115,617	39,906
2016	118,889	36,588
2017-2021	646,861	129,785
2022-2025	586,660	33,780
	<u>\$ 1,796,135</u>	<u>\$ 378,786</u>

D. Advances Payable to the City of Eureka

The City of Eureka and the Eureka Redevelopment Agency have entered into various agreements whereby, the City will advance funds to the Agency to undertake certain projects. The advances are to be repaid, including interest (at varying rates), when funds are available from net tax increment revenues. The amount outstanding as of June 30, 2011 was \$5,644,960.

E. Compensated Absences

Agency employees accumulated earned but unused vacation and sick pay benefits, which can be converted to cash at termination of employment. The liability is reported as long-term debt on the Statement of Net Assets. Expenditures are reported in the governmental fund statements that liquidate the current liability. However, in the Statement of Activities the expense is allocated to each function based on usage. The payable in accordance with various collective bargaining agreements, at June 30, 2011, total \$11,245.

EUREKA REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 – CONTINGENT LIABILITIES

During fiscal year 2008-2009, the State of California experienced a severe budgetary crisis. Various “budget trailer bills” were passed by the state legislature to balance the state’s budget, including bills that required California redevelopment agencies to transfer funds to the Supplemental Educational Revenue Augmentation Fund (SERAF) administered by the various county auditor-controllers. Noted below is a general explanation of the SERAF legislation, together with the effect of this legislation on the Agency.

Pursuant to AB 26 4x, a budget trailer bill, California redevelopment agencies were required to make SERAF contributions totaling \$1.7 billion for the fiscal year 2009-2010 and \$350 million for the fiscal year 2010-2011. Under AB 26 4x, agencies may borrow a portion of the required contributions from their low and moderate income housing fund. Alternatively, sponsoring governmental agencies (the cities or counties) may elect to pay SERAF contributions on behalf of their redevelopment agencies. On October 20, 2009, the CRA filed a class action lawsuit on behalf of all California redevelopment agencies challenging the SERAF obligations as unconstitutional.

It is the position of Agency officials that the SERAF contributions required by AB 26 4x are unconstitutional, and that the Agency is not obligated to make these contributions. Accordingly, the Agency supports the CRA’s class action lawsuit to overturn the provisions of AB 26 4x.

The Agency made its contribution of \$338,597 for the fiscal year 2010-2011.

The Agency is involved in litigation arising in the normal course of business. In the opinion of the Agency’s counsel and management, this litigation will not have a material adverse effect on the financial condition on the Agency.

NOTE 10 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The Agency reported excess expenditures over appropriations in the amount of \$1,508,558 in the debt service fund.

The Redevelopment Administration Special Revenue Fund has a deficit fund balance of \$217,936 that should be alleviated as additional revenues are received.

NOTE 11 – NET ASSETS AND FUND BALANCES

GASB Statement No. 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

A. Net Assets

Net Assets are divided into three captions under GASB Statement No. 34. These captions apply only to Net Assets as determined at the Government-wide level, and are described below:

Invested in Capital Assets, net of related debt describes the portion of Net Assets, which is represented by the current net book value of the Agency’s capital assets, less the outstanding balance of any debt issued to finance these assets.

EUREKA REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 11 – NET ASSETS AND FUND BALANCES (Continued)

A. Net Assets (Continued)

Restricted describes the portion of Net Assets, which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Agency cannot unilaterally alter. These principally include redevelopment tax revenue received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income housing purposes.

Unrestricted describes the portion of Net Assets, which is not restricted as to use.

B. Fund Balances

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, committed, assigned, and unassigned fund balance. The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Restricted fund balances are those that have externally imposed restrictions on their usage by creditors, such as through debt covenants, grantors, contributors, or laws and regulations. The Agency does not have any committed or assigned fund balances at June 30, 2011.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, followed by the unrestricted, committed, assigned and unassigned resources, as they are needed.

The following are descriptions of the fund balances of the Agency at June 30, 2011,

a) Restricted

The Agency's Low/Mod Housing Fund report \$1,765,573 as restricted fund balance as the amount of available balance in this fund can only be spent for affordable housing per the California Health and Safety Code.

The Agency's Debt Service Fund reports \$2,251,685 as restricted fund balance as these are reserves required by the various debt indentures.

The Agency's Capital Projects Fund reflects a restricted fund balance in the amount of \$1,942,090. This balance can be used for redevelopment purposes as specified in the Plan and California Community Redevelopment law.

EUREKA REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 12 – SUBSEQUENT EVENTS

The Redevelopment Agency operates pursuant to the provisions of California Redevelopment Law (Health & Safety Code Section 33000 et seq.). On June 28, 2011, the California Legislature adopted Assembly Bill XI 26 (Dissolution Act) and Assembly Bill XI 27 (Continuation Act). The express purpose of the Dissolution Act was to provide for the elimination of redevelopment agencies, and to direct the orderly distribution of former redevelopment agency assets and liabilities. The purpose of the Continuation Act was to provide a voluntary alternative for local governments to continue redevelopment activities. Taken together, these Acts require the Agency and its sponsoring community (the City) to take several legislative actions to implement their various provisions.

On December 29, 2011, the California Supreme Court rendered an opinion upholding the State of California's rights to abolish redevelopment agencies (Assembly Bill 1X 26). The California Supreme Court also rendered an opinion invalidating the State of California's allowance of redevelopment agencies to make payments to various funds benefitting schools and special districts as a condition of continued operation (Assembly Bill 1X 27). Under the timeline of the AB XI26, if the City of Eureka does not want to serve as the "successor agency" to its redevelopment agency, then it must submit a resolution to that effect to the County Auditor-Controller by January 13, 2012. If the City wishes to serve as the "successor agency", no action is required and the redevelopment agency will be dissolved starting February 1, 2012.

NOTE 13 – PROPERTY CONVEYANCE AGREEMENT – SPECIAL ITEM

During the fiscal year ended June 30, 2011, the Agency entered into a Property Conveyance Agreement with the City of Eureka. Per the Agreement, the Agency was to transfer certain assets, liabilities, options, rents, leases, and other agreements to the City. The City will then be able to assist the Agency in carrying out its intended purpose.

The Agency transferred various land held for resale and capital assets. The total amount of assets transferred was \$20,157,662.

NOTE 14 – RELATED PARTY TRANSACTIONS

In March 2011, the Agency and the City entered into a Property Conveyance Agreement whereby the City will purchase and receive certain assets, liabilities, options, rents, leases, projects, and other agreements. Under this Agreement, the City will be able to assist the Agency in carrying out its intended purpose – revitalize and eliminate blight in certain areas within the Agency as well as provide affordable housing.

EUREKA REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 15 - PRIOR PERIOD ADJUSTMENTS

The Agency recorded the following prior period adjustments to correct certain accounting estimates. Accordingly, the fund balances, as of July 1, 2010, have been restated as follows:

Reason for adjustments	Government-wide Statements	Redevelopment Administration Special Revenue Fund	Debt Service Fund	Capital Projects Fund
Overstatement of compensated absences	\$ -	\$ 15,773	\$ -	\$ -
(Overstatement) of cash and investments	(229,858)		(229,858)	
Understatement of restricted cash and investments with fiscal agents	829,906		773,673	56,233
Understatement of deferred charges	248,300			
(Understatement) of bond premium	(30,770)			
(Understatement) of bonds payable	(1,375,627)			
(Overstatement) of notes receivable	(1,102,270)			
	<u>\$ (1,660,319)</u>	<u>\$ 15,773</u>	<u>\$ 543,815</u>	<u>\$ 56,233</u>

NOTE 16 – FINANCIAL CONDITION

The Agency has a deficit net assets balance of \$14,882,279 as of June 30, 2011. The Agency projects that future resources will be sufficient to pay long-term obligations as they become due. It is uncertain whether the tax increment revenue received over the life of the Agency would be adequate to eliminate the deficit. Any remaining deficit at the end of the Agency's life will be absorbed by the City's General Fund.

Under the timeline of the AB XI26, if the City of Eureka does not want to serve as the "successor agency" to its redevelopment agency, then it must submit a resolution to that effect to the County Auditor-Controller by January 13, 2012. If the City wishes to serve as the "successor agency", no action is required and the redevelopment agency will be dissolved starting February 1, 2012.

REQUIRED SUPPLEMENTAL INFORMATION

**EUREKA REDEVELOPMENT AGENCY
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
LOW AND MODERATE INCOME HOUSING SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Use of money and property	\$ 20,500	\$ 20,500	\$ 9,611	\$ (10,889)
Charges for services			30,355	30,355
Other revenues	375,500	375,500	344,262	(31,238)
Total Revenues	396,000	396,000	384,228	(11,772)
EXPENDITURES				
Current:				
Community development	1,232,726	1,238,208	625,609	612,599
Total Expenditures	1,232,726	1,238,208	625,609	612,599
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(836,726)	(842,208)	(241,381)	600,827
OTHER FINANCING SOURCES (USES)				
Transfers to City of Eureka	(50,000)	(50,000)	(50,000)	
Transfers in	1,326,093	1,326,093	1,275,052	(51,041)
Total Other Financing Sources (Uses)	1,276,093	1,276,093	1,225,052	(51,041)
SPECIAL ITEM				
Property Conveyance Agreement			(61,567)	(61,567)
NET CHANGE IN FUND BALANCE	439,367	433,885	922,104	488,219
FUND BALANCE, BEGINNING OF FISCAL YEAR	843,469	843,469	843,469	
FUND BALANCE, END OF FISCAL YEAR	\$ 1,282,836	\$ 1,277,354	\$ 1,765,573	\$ 488,219

**EUREKA REDEVELOPMENT AGENCY
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
REDEVELOPMENT ADMINISTRATION SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Use of money and property	\$ 6,000	\$ 6,000	\$ 5,759	\$ (241)
Charges for services	1,139,000	1,139,000	751,035	(387,965)
Other revenues	600	600	39,360	38,760
Total Revenues	1,145,600	1,145,600	796,154	(349,446)
EXPENDITURES				
Current:				
Community development	1,130,097	1,076,813	1,037,109	39,704
Debt Service:				
Interest and fiscal charges			2,200	(2,200)
Total Expenditures	1,130,097	1,076,813	1,039,309	37,504
NET CHANGE IN FUND BALANCE	15,503	68,787	(243,155)	(311,942)
FUND BALANCE, BEGINNING OF FISCAL YEAR	9,446	9,446	9,446	
Prior Period Adjustments			15,773	15,773
FUND BALANCE, BEGINNING OF FISCAL YEAR, RESTATED	9,446	9,446	25,219	15,773
FUND BALANCE (DEFICIT), END OF FISCAL YEAR	\$ 24,949	\$ 78,233	\$ (217,936)	\$ (296,169)

OTHER SUPPLEMENTAL INFORMATION

**EUREKA REDEVELOPMENT AGENCY
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
REDEVELOPMENT AGENCY DEBT SERVICE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Property tax increment revenue	\$ 4,910,010	\$ 4,866,612	\$ (43,398)
Use of money and property	19,200	3,749	(15,451)
Intergovernmental	16,000	14,910	(1,090)
Total Revenues	4,945,210	4,885,271	(59,939)
EXPENDITURES			
Current:			
Community development	826,967	1,169,057	(342,090)
Pass through payments		328,668	(328,668)
Debt Service:			
Principal	255,713	236,374	19,339
Interest and fiscal charges		857,139	(857,139)
Total Expenditures	1,082,680	2,591,238	(1,508,558)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	3,862,530	2,294,033	(1,568,497)
OTHER FINANCING SOURCES (USES)			
Proceeds from debt issuance		115,980	115,980
Transfers to City of Eureka		(410,607)	(410,607)
Transfers in	4,296,373	132,969	(4,163,404)
Transfers out	(5,176,840)	(1,275,052)	3,901,788
Total Other Financing Sources (Uses)	(880,467)	(1,436,710)	(556,243)
NET CHANGE IN FUND BALANCE	2,982,063	857,323	(2,124,740)
FUND BALANCE, BEGINNING OF FISCAL YEAR	850,547	850,547	
Prior Period Adjustments		543,815	543,815
FUND BALANCE, BEGINNING OF FISCAL YEAR, RESTATED	850,547	1,394,362	543,815
FUND BALANCE, END OF FISCAL YEAR	\$ 3,832,610	\$ 2,251,685	\$ (1,580,925)

**EUREKA REDEVELOPMENT AGENCY
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
REDEVELOPMENT AGENCY CAPITAL PROJECTS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Use of money and property	\$ -	\$ 11,281	\$ 11,281
Other revenues	230,000		(230,000)
Total Revenues	230,000	11,281	(218,719)
EXPENDITURES			
Current:			
Community development	116,457	25,445	91,012
Capital outlay	2,475,888	1,355,889	1,119,999
Debt Service:			
Interest and fiscal charges		609,261	(609,261)
Total Expenditures	2,592,345	1,990,595	601,750
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(2,362,345)	(1,979,314)	383,031
OTHER FINANCING SOURCES (USES)			
Proceeds from advance and loans	377,587	574,641	197,054
Transfers in	2,507,025		(2,507,025)
Transfers out		(132,969)	(132,969)
Total Other Financing Sources (Uses)	2,884,612	441,672	(2,442,940)
SPECIAL ITEM			
Property Conveyance Agreement		(4,613,178)	(4,613,178)
NET CHANGE IN FUND BALANCE	522,267	(6,150,820)	(6,673,087)
FUND BALANCE, BEGINNING OF FISCAL YEAR	8,036,677	8,036,677	
Prior Period Adjustments		56,233	56,233
FUND BALANCE, BEGINNING OF FISCAL YEAR, RESTATED	8,036,677	8,092,910	56,233
FUND BALANCE, END OF FISCAL YEAR	\$ 8,558,944	\$ 1,942,090	\$ (6,616,854)

EUREKA REDEVELOPMENT AGENCY
COMPUTATION OF LOW AND MODERATE INCOME HOUSING FUND EXCESS SURPLUS
For the Fiscal Year Ended June 30, 2011

	Low and Moderate Housing Funds All Project Funds
Fund balance at June 30, 2011	<u>\$ 1,765,573</u>
Less unavailable amounts:	
Land held for resale	462,801
Available low and moderate income housing funds	<u>1,302,772</u>
Limitation (greater of \$1,000,000 or four years set-aside)	
Set-aside for last four years:	
2009-2010	990,253
2008-2009	1,152,426
2007-2008	1,014,287
2006-2007	<u>930,675</u>
Total set-aside	<u>4,087,641</u>
Base limitation	<u>\$ 1,000,000</u>
Greater amount	<u>\$ 4,087,641</u>
Computed Excess Surplus	<u>NONE</u>



MOSS, LEVY & HARTZHEIM LLP

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Governing Board
Eureka Redevelopment Agency
Eureka, California

We have audited the financial statements of the governmental activities and each major fund of the Eureka Redevelopment Agency (Agency), a component unit of the City of Eureka, California as of and for the fiscal year ended June 30, 2011, and have issued our report thereon, dated January 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the California State Controller. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Audit Findings and Responses as item 2011-1.

The Eureka Redevelopment Agency's response to the finding identified in our audit is described in the accompanying schedule of audit findings and responses. We did not audit the Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Agency's Governing Board, management, the California State Controller's Office Division of Accounting and Reporting, and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
January 10, 2012



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITOR'S REPORT ON
CALIFORNIA REDEVELOPMENT AGENCIES COMPLIANCE**

Members of the Governing Board
Eureka Redevelopment Agency
Eureka, California

Compliance

We have audited the Eureka Redevelopment Agency (Agency)'s compliance with the *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the California State Controller applicable to the Agency for the fiscal year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of Agency's management. Our responsibility is to express an opinion on Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the California State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on State laws and regulations occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

As described in item 2011-1 in the accompanying Schedule of Audit Findings and Responses, the Eureka Redevelopment Agency did not comply with requirements regarding annual reporting that is applicable to the Agency. Compliance with such requirements is necessary, in our opinion, for the Agency to comply with the compliance requirements under *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the California State Controller.

In our opinion, except for the noncompliance described in the preceding paragraph, the Agency complied, in all material respects, with the compliance requirements referred to above for the fiscal year ended June 30, 2011.

Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered Agency's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Eureka Redevelopment Agency's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Agency's Governing Board, management, and the California State Controller's Office Division of Accounting and Reporting, and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Culver City, California
January 10, 2012

**EUREKA REDEVELOPMENT AGENCY
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
JUNE 30, 2011**

Finding 2011-1 - Failed to submit the fiscal year 09-10 and 10-11 Agency's Annual Report to the respective legislative body within six months after the end of the Agency's fiscal year.

During the compliance audit for the Redevelopment Agency, we noted that the agency failed to submit the fiscal year 09-10 and 10-11 Agency's Annual Report to the respective legislative body within six months after the end of the Agency's fiscal year.

Criteria:

Section 33080.1 of the California Health and Safety Code requires that Redevelopment Agencies must present an annual report to its legislative body and the State Controller Office within six months of the end of a fiscal year.

Effect:

The Agency is not in compliance with Health and Safety Code Section 33080.1 for the state report filing requirement.

Recommendation:

The Agency should provide their employees with sufficient training regarding state reporting requirements.

Agency's Response:

Management acknowledges the Agency's fiscal year 09-10 and 10-11 Annual Report was not submitted to the Eureka Redevelopment Agency Board within six months after the end of the Agency's fiscal year.

At the time of the preparation of Annual Report, the Agency had significant turnover within the Finance Department, including the Finance Director position, which remained vacant for several months. During the course of the 09/10 audit, the Agency lost both accountants, one leaving for employment elsewhere, and one due to retirement. The issue has been addressed, as the Finance Department is now fully staffed. Furthermore, accounting staff has been sent to redevelopment agency reporting training this past summer and will continue to attend relevant training.

The submission of the 10-11 Annual Report was delayed due to the lateness of finalizing the 09-10 audit, and therefore being unable to verify the accuracy of the beginning numbers.